



U.S. Signs on with Smart Cards

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U.S. Signs on with Smart Cards PRINCETON JUNCTION, N.J., Oct. 28 /PRNewswire/ -- U.S. consumers, businesses and government agencies are increasingly signing on with smart cards, using them for everything from transit fare payment to information system security, and demand is likely to keep growing, according to the consensus view expressed by speakers at the fall conference of the Smart Card Alliance. "In 2003 the United States became the third largest market for microprocessor smart cards in the world, after China and the United Kingdom, and that is a tremendous success for all of us," outgoing Alliance chairman Paul Beverly, president, Americas for Axalto announced to the enthusiastic audience last week in Ponte Vedra Beach, Florida. "In 2003 alone our industry will ship more than 70 million smart cards to the United States and Canada, and the outlook for growth has never been brighter. Convenience and security are catching the attention of consumers. At the same time, U.S. card issuers from many market sectors are rapidly adding a wide range of value-added services to multi-application smart cards." One of the changes evident at the event was the increased activity in contactless smart card technology. Today most of the industry shipments are for contact smart cards, and that will continue to be true; however, contactless technology promises to add new applications and markets that will further accelerate the growth of the industry. This topic and other highlights from the conference are presented below. Transit Most transit operators in urban areas of the United States are implementing smart card-based fare ticketing systems. Greg Garback, executive officer, department of finance, Washington Metropolitan Area Transit Authority, explained why: "You cannot have 40-year-old technology and attract new customers. If a transit customer has to have four pieces of fare media for his or her commute, that is not a good thing. The customer just wants to get in. Smart cards enable us to give the customers what they want - a single, fast, convenient ticket." Garback, who heads up the most advanced smart card transit project in the United States, reported that nearly 375,000 SmartTrip cards have been issued and that customer satisfaction is very high. Among current users, 99% expect to continue using the cards, citing convenience as the primary reason for high satisfaction. The Washington Metropolitan Area Transit Authority is also exploring multi-application potential in other demonstration projects with the U.S. Department of Education and the General Services Administration, combining SmartTrip with photo ID, building access and contact chip-based administrative information. A transit-focused panel reported on initiatives in Boston, San Francisco and Florida to implement smart card-based fare collection systems. Michael DiAngelis of the Metropolitan Boston Transit Authority emphasized another advantage of smart cards - flexibility. "One of our goals for smart cards is partnering with financial institutions, employers, universities and retailers. Our new AFC system will make it easier to administer corporate programs, and our corporate partners are very excited about that," said DiAngelis. Andrew Meiman, associate with Booz Allen Hamilton, gave an update on the San Francisco Bay Area TransLink project. "At full market penetration, over 700,000 transit riders are expected to use TransLink," reported Meiman. According to the recently released Smart Card Alliance white paper, it was always envisioned that the smart TransLink fare card would be expanded to carry applications beyond the initial transit application. The first instance of this expansion is parking, with the smart card reader being integrated into new electronic parking meters to be installed in San Francisco in 2004. Wireless Smart cards

serve as Subscriber Information Modules (SIMs) in wireless phones compatible with the GSM standard. With more than 30 million Americans carrying smart card-equipped mobile phones, wireless is the largest sector for smart cards in the U.S. market. Hamish Caldwell, executive director, product management of Cingular Wireless, explained why smart cards and GSM was the right strategy for Cingular: "Customers want choices in services, and SIMs enable consumers to access those services. They are removable, so consumers can transport identity and service choices from one device to another. SIMs provide hardware-based security and enable operators to bill for services by providing identity. Services drive the move to a SIM." Caldwell sees considerable marketing value in the SIM. "SIM is this invisible little thing, and you can forget that it is there. But it is a physical embodiment of us as a carrier," he said. Caldwell presented plans for an ad campaign to call attention to the Cingular "SmartChip." The marketing campaign seeks to differentiate Cingular by communicating GSM and SIM features and benefits to the consumer. Enterprise Security Corporate employees on the move, both physically and logically, are increasingly likely to use a smart card in their day-to-day activity. At the Alliance meeting, Boeing, Northrop Grumman and Sun all presented their smart card-based corporate ID credential programs. At Boeing, mergers and acquisitions over the years resulted in multiple identity management processes. Sharon Lindley, director SecureBadge Program at Boeing, explained that one of their business drivers was to standardize identity badges and processes enterprise-wide. They also wanted very strong security for network and computer login and felt PKI-based authentication offered the highest levels of security. The preferred solution was creating a smart chip-based badge. In the program's earliest phases, the new badge will support physical access and PKI-based login. "We plan to badge approximately 200,000 employees, customers and suppliers across the world," said Lindley. Another company that is using smart cards internally for network and desktop access is Sun Microsystems. "At Sun we believe that a multi-application smart card is key to secure enterprise digital identity," Albert Leung, group marketing manager Java Card technology for Sun, told meeting attendees. "Every desktop has a smart card reader built into it." Internally, Sun has issued 35,000 "JavaBadge" ID credentials to employees. These multi-application smart cards combined several different existing cards or ID tokens into one card that can provide physical access control and logical access via single sign-on. "We saved a lot of money by incorporating all of the technology on one card," stated Leung. Financial Contactless RF technology was a big focus in the presentations and panels discussing retail payment. David Owen, principal, U.S. Financial Services for Booz Allen Hamilton, estimates that more than 20 million U.S. households are already using RF-based payment systems, of which 75% are RF toll transponders and the rest RF payment fobs. Owen explained why this technology is getting so much attention for payment. Owen cited statistics showing that U.S. credit card industry charge volume growth rates slowed to 11.6% during 1996 to 2001, down from 15.9% in the prior five-year period. Similarly, new accounts are harder to get, with response rates to card industry mailings falling to 0.5% from 3.0% in the last ten years. At the same time, 65% of the \$6.7 trillion in U.S. consumer payments are still made by check or cash, and sizable cash and transaction intensive merchant segments still exist. As financial services providers look for additional growth, they have found that RF-based payment enables them to extend current card platforms into these still-available segments. "The beauty of RFID is that there is a value proposition that goes all the way around the circle between consumers, merchants and issuers," Owen explained. "The form factor resonates with consumers because it is fun -- consumers like the 'wave.'" Owen also reported that merchants see tangible benefits such as reduced operating costs, incremental revenue and better information capture and issuers get the opportunity to acquire new customers with a differentiated product and drive new revenues. Contactless payment was also one of the primary themes of the financial services panel that included representatives from American Express, JCB, MasterCard International and Visa USA. This type of dialogue and cooperative discussion is an important advantage of Smart Card Alliance conferences, and the organization itself. David Bonalle, vice president and general manager, Advanced Payments Development for American Express, was very positive on the opportunity. "We started looking at this arena three years ago. We saw that there was a whole area that could be successful and that was a great application of chip card technology. It's all about speed and convenience so it's a very different space than our contact smart card area. We're very pleased with the developments in the area," said Bonalle, whose company is market testing a contactless payment product called Expresspay. Representing MasterCard's interests was Keith Saunders, vice president business development. "MasterCard is interested in deploying technologies to better serve consumers. Within the United States, our big focus now is on Paypass, contactless and understanding the consumer value proposition. We are aiming at certain markets where contactless provides value add to the merchant in terms of speed, throughput or ease of use," said Saunders. The panel also discussed the future of contact cards in the United States, and the outlook for migration to EMV-

compliant smart bankcards. Julie Krueger, vice president smart cards for JCB in the United States, drew an interesting parallel with the mobile communication sector. "Look at GSM. In 1993 or 1994 GSM was not on the roadmap of any U.S. operators and now it's here. It was driven here because it was a standard across the world," said Krueger. She sees smart cards coming to the U.S. bank cards in a similar way. All new JCB cards being issued in Japan are EMV-compliant smart cards, and by 2006 the migration of their entire base of 40 million cards will be complete. Patrick Gauthier, senior vice president New Product Development for Visa, voiced another consideration. "As rest of the world moves to EMV, the cost will decrease, and we will see innovation and infrastructure initiatives," said Gauthier. Infrastructure changes made to support other regions will make it easier to migrate in the United States, reasons Gauthier, because large processors "are increasingly going across boundaries" and are "coming to the point where it is easier to have one platform vs. multiple regional platforms." Nonetheless, it was the consensus of the group that any U.S. migration to EMV would take time and would be an evolution, not a revolution. "Adoption of any new technology is measured in fractions of generations not in fraction of years or months or quarters," said Gauthier. More information is available at www.smartcardalliance.org. About the Smart Card Alliance The Smart Card Alliance is a not-for-profit, multi-industry association working to accelerate the acceptance of smart card technology. Through specific projects such as education programs, market research, advocacy, industry relations and open forums, the Alliance keeps its members connected to industry leaders and innovative thought. The Alliance is the single industry voice for smart cards, leading industry discussion on the impact and value of smart cards in the United States. For more information please visit <http://www.smartcardalliance.org>. Contact: Deb Montner, Montner & Associates, 203-226-9290, dmontner@montner.com.

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